Choice From Crisis - Reasserting Confidence

By Chris Greenwood
Published on australia. coop Nov 3, 2005 - 3:59:00 PM

Part 1 of Chris Greenwood's interview with the UK's leading co-operative educator, Mervyn Wilson.

The Australian co-operative sector is suffering from a “crisis of confidence” which is undermining its continued development in Australia, according to the UK’s leading co-operative educator, Mervyn Wilson.

Mr Wilson is the chief executive officer and principal of the Co-operative College. He was brought to Melbourne by the Victorian Co-operative Federation for talks on co-operative development with Murray Goulburn Co-operative (MG), Monash University and State Government officials.

According to Mr Wilson the real problem which underpins this crisis of confidence in Australian co-operatives is their invisibility and the knock-on effect this invisibility has to potential and existing members.

“Co-operatives in Australia seem to be invisible to policy makers, statutory advisory services and across the education system. Individuals don’t know of the co-operative model because they have generally never been exposed to it during their education. As a consequence, existing members fail to fully appreciate the benefits they receive and potential members never get ‘switched on’ to these benefits,’’ he said.

Getting the message out

Mr Wilson said co-operatives and their supporters needed to get the message out that co-operatives are highly successful businesses.

“Australian co-operatives and their members need to look at the success of the co-operative sector on a global scale. For example, in the USA alone, 36 million people receive their electricity through a co-op. More that 150 million people use credit co-ops and co-operatives support a vast array of businesses worth billions of dollar in the rural sector,” he said.

He advised the Australian co-operative sector to reassert its confidence.

“Co-operatives and the co-operative sectors in general have to be prepared to be much more aggressive in terms of advocating the benefits of co-operation,” he said.

Research in Nth America shows that people trust co-operatives much more than many other organisations.

The fact that they are not seen as purely profit driven and are devoted to meeting members needs rather than those of external stock holders gives them extra credibility.

“Co-operatives need to gain leverage from this, maximise their strengths and get the co-operative model back into the public policy debate,” Mr Wilson said.

“We should recognise that we live in a modern mixed 21st century economy which has sufficient room in it for a variety of business forms.

“Essentially it is about challenging the ‘dogma’ of the supremacy of the investor owned

model of enterprise, which at the same time seeks to marginalise co-operatives."

"We need be constantly stating in deed and action that we are 21st century businesses and more than capable of holding our own in a modern economy," Mr Wilson said.

Benefits of co-operation

One of the big roles of co-operatives is that they raise the benchmark and standards within the industries they operate. For example in the agricultural sector they are often credited with setting the benchmark price to farmers for their raw product supply.

The Rochdale pioneers in the North of England - credited with founding the modern co-operative sector - grew on the back of a raft of unscrupulous trading activities which saw chalk added to flour, watered down milk and weights and measures altered.

"The co-operative offered a trusted middle man role ensuring that its consumer members did not get ripped off in their day to day purchases and that its supplier members got a fair price for their produce, Mr Wilson said.

These days we have food standards and various regulations which take care of these consumer issues - so does that spell the end of the usefulness of co-operatives?

"Not at all," Mr Wilson said emphatically. "What it does highlight is that just as with any other business, in order to survive you need to adjust to the changes taking place in society and to the needs of a new generation of members.

"What co-operatives have to continually do is identify these emerging market opportunities and how these affect the needs of their members," he said.

As an example, Mr Wilson highlighted the way consumer co-operatives in the UK had embraced the trend towards healthy eating and explored ways to improve the consumer's ability to select the types of foods that are good for them.

"UK co-operatives have led the way in the disclosure of fat content and sugar content on the product packaging. Running a campaign built around what they called the 'lie on the label' and challenging what they claimed were "the unsavoury tactics of multiples and big food processors", consumer co-operatives have carved out a profitable market," Mr Wilson said.

The fair and ethical trade movement

Mr Wilson said UK consumer co-operatives had also been at the forefront of bringing the concept of fair and ethically traded products into mainstream consumer awareness.

They have been very active in ensuring goods are actually fairly traded with producers, particularly in the developing world, by developing sound sourcing polices through the supply chain.

"We live in an age of highly complex supply chains. Many of the big brands produce absolutely nothing, but have contracts with a whole range of suppliers. Under this system how can you be confident that the shirt you are wearing has been produced without child labour or other unsavoury work practices?" Mr Wilson asks.

Co-operatives have been at the forefront of this issue, by developing auditing and tracking systems throughout the supply chain to ensure ethical production systems are maintained.

It is a concept that has gained currency in the UK due to the practical benefits it has produced.

Mr Wilson highlighted the case of the Kuapa Kokoo Co-operative in Ghana which on the strength of the fair trade premium it receives on its coffee production has so far built nine new schools in the region.

These sort of success stories lodge in the consciousness of many consumers and translate to increased sales.

“In the UK, all consumer co-ops’ ’own label’ brand coffee and chocolate is sourced from fair trade producers. A move which has led to impressive growth. When the change was made from standard commercial sourcing to fair trade sources, coffee sales grew by more than 70%,” Mr Wilson said.

As a result there is an increasing range of fair trade product on offer and mainstream supermarket chains have been keen to follow suit.

The Tesco chain of supermarkets, UK’s biggest retailer now has a strategic objective of replacing “The Co-op” a leading consumer co-op in Britain - as the number one supplier of fair trade products.

Mr Wilson said while this represented a significant threat to the co-operative’s business, it was a ringing endorsement of the ability of co-operatives to spot market place trends and capture the benefits of them.

On Demutualisation

Demutualisation has been global trend and in Mr Wilson’s view it has been driven by a perverse logic which dictates that assets built up over many generations of co-operative suppliers can be suddenly crystallised in the hands of the current members.

“This sort of logic to me is an absolute obscenity,” he said.

But once this logic has been accepted by the board and management, then tremendous financial leverage is created which drives the notion of demutualization right down to its grass roots members.

As the saying goes in agricultural co-operative circles ‘don’t get in the way of a farmer and a pot of money’.

“The period when co-operative assets are being rapidly built, most frequently occurs in the first 50 years of co-operative operation. What happens with demutualisation absolutely defies the capitalist theory of risk and reward. The current generation of members who are being rewarded take no risk. The risk was taken by the pioneers because they believed in the model,” he said.

Mr Wilson maintains there are two main factors contributing to the decision to demutualise.

The first is long standing neglect of members by board and management.

“The co-operative only communicates with members once a year and even then only to tell them about the re-election of people they had never heard of in the first place,” Mr Wilson said.

“Given this reality, when members are offered money for something they never really knew they owned in the first place, it is not surprising they happily sell their share,” he said.

Based on experience in the UK, Mr Wilson said the second factor was that successful demutualisations were most often led ‘internally’ by management and boards - who were also likely to be the prime beneficiaries of the changes they were proposing.

“Massive campaigns for demutulisation by third parties from outside the organisation have very little history of success against a resolute board,” Mr Wilson said.

He believed this only emphasised the importance of the board setting the co-operative culture of the organisation and ensuring all executives and employees went through an induction course to reinforce their understanding of the ‘co-operative difference’.

Choice From Crisis - Co-operative Education

By Chris Greenwood
Published on australia.coop Nov 4, 2005 - 6:56:00 AM

Part 11 of Chris Greenwood's interview with the UK's leading co-operative educator, Mervyn Wilson.

While in Australia, Mr Wilson met with a number of co-operative and government officials. He said he was particularly impressed with the board and management of Murray Goulburn (MG) here in Victoria.

“I enjoyed meeting MG’s board. I think they have an outstanding chairman in Ian MacAulay whose has a very strong commitment co-operation. The clarity and vision that he and many of MG’s board members share about the benefits that co-operatives have brought to dairy farmers in the long term is admirable,” he said.

According to Mr Wilson, long term commitment is a key feature of the way co-operatives operate.

“Co-operatives are not about the fast buck. My experience is that the fast buck is usually delivered at the expense of the real quality of services in the long term,” he said.

However even with a long term view of co-operative performance, there still comes a time when co-operative members retire or wish to stop supplying their co-operative.

Mr Wilson acknowledged that loyalty from members needed to be rewarded with tangible benefits

He thought it quite understandable that as they moved to retirement, long term members were looking for some sort of reward for their contribution to the building of the co-operative business

He said co-operatives needed to need to look at innovative ways to withdraw ‘equity like’ capital from the co-op for retiring members, in a manner which was also consistent with co-op values, structure and principles.

“We are fortunate in the fact that the early co-operative pioneers installed tremendous flexibility in the co-operative model. It is capable of adjustment and modification to suit the needs of the time,” he said.

Mr Wilson said there was some very good research work going on in America on these equity issues and solutions would be found.

In places like Australia, where institutional support for co-operatives was very low, Mr Wilson believed it essential that the debate and research on these issues be carried out by people who really understood co-operatives.

He said equity, dividend and member return issue were obviously crucial issues for many agricultural co-operatives and their members. But the debate must not be driven by accountants, auditors, lawyer or consultant who did not understand the co-operative model.

To do this, is something akin to going to the doctors for treatment for a toothache.

Instead, Mr Wilson emphasises the importance of consulting people who truly understand what a co-operative is all about, because is these specialists who they come up with specific co-operative solutions.

Education a vital part of the equation

When Mr Wilson arrived in Australia he thought he should first assess the quality of Australian co-op education but found it very difficult to do so.

“It is hard to assess what isn’t here,” he said.

He acknowledged there were isolated industry based programs for co-op education in Australia, but believed the approach was peace-meal at best, and irrelevant at worst.

“The lack of good quality co-operative education programs in Australia poses significant issues for organisations wanting to operate as co-operatives,” he said

Mr Wilson believed education was a fundamental part of bringing the co-operative model back into mainstream business thinking. Indeed education has always been a key plank of co-operative development

“It is vital to provide member education programs which identify the uniqueness of the co-operative model, its benefits, its strengths and also the threats it faces.”

“In essence co-operative education programs take co-operators from an ‘instinctive and intuitive’ grasp of the co-operative model, to a more ‘clinical and scientific’ understanding of the system,’’ he said.

From this point he believed you can form a very clear action plan for co-operative development with a clear message that can be conveyed to supplier members.

“As a board member, or part of co-operative management, you must be clear on what the benefits of co-operative membership are today and you need to express these benefits in crystal clear terms,” he said.

“Co-operatives are far from a spent force in the business systems of the 21st century, Murray Goulburn is a shining example of this. However the crisis of confidence I see here in Australia is a very dangerous development and one which could eventually undermine even your strongest co-operatives if left unchallenged,” he said.

Mr Wilson is emphatic that the situation can be turned around, but it must happen soon.

“It has been done in the UK and numerous other countries, but it must become the focus for the co-operative sector and its supporters,” he said.

Mr Wilson hopes to be working with the Co-operative Federation of Victoria, state and federal groups and leading Australian co-ops such as MG, to begin the process.

Break out for the dairy industry

Dairy industry

Mr Wilson said the dairy industry is one where categorically you could prove that if co-operatives were not there already then they would have to be reinvented.
The need for farmers to ensure they have an efficient way to get their goods to market without being at the mercy of the market is imperative.

He said critics of the co-operative model will say, that in a modern sophisticated economy co-operative are no longer relevant because market forces will ensure a fair price for dairy farmer milk.

That might work in theory, but in practice, it was a nonsense, he said. “Look at what has happened to milk prices in the face of the growth of the giant supermarket chains.”

With such concentration of retail power, some co-operatives in the UK have managed to claw back their margins by capturing the entire supply chain.

Dairy Farmers of Britain (DFB), a leading dairy farmers’ co-operative in the UK, and the third largest milk processor in the country, has taken over the doorstep delivery system which was previously run by consumer co-ops.

“DFB markets almost two billion litres of milk per year from more than 3250 member farms and sells milk on the doorstep to more than 750,000 households across England and Wales. That is a totally vertically integrated dairy industry that is controlled by farmers,” Mr Wilson said.

Using examples such as DFB and countless others around the world, Mr Wilson said co-operatives must champion the benefits of the co-operative model more aggressively.